

Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 IO-14 ISO-00 SP-02 ICA-20 AID-05
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03
H-02 PA-02 CIAE-00 COME-00 FRB-01 INR-10 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 AGRE-00 /126 W
-----079660 221809Z /53

R 201400Z MAY 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7602
AMEMBASSY BUENOS AIRES
AMEMBASSY ASUNCION
AMEMBASSY SANTIAGO
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

UNCLAS SECTION 1 OF 2 BRASILIA 4049

GENEVA FOR USMTN

E.O. 11652: N/A
TAGS: ECON, EAGR, BR
SUBJECT: PUBLIC STATEMENTS ON BRAZILIAN ECONOMIC STRATEGY

REF: A) BRASILIA 3447 B) BRASILIA 3650

1. SUMMARY. PUBLIC STATEMENTS BY PLANNING MINISTER
VELLOSO AND FINANCE MINISTER SIMONSEN PRIOR TO A MEETING OF
THE ECONOMIC DEVELOPMENT COUNCIL (CDE) ON MAY 17 PROVIDED
THE OUTLINES OF OFFICIAL VIEWS ON THE EFFECT OF THE
DROUGHT ON OVERALL BRAZILIAN ECONOMIC GOALS AND POLICY
FOR 1978. SIMONSEN STRESSED THAT GOB EFFORTS WILL CONTINUE
TO BE DIRECTED AT THE CONTAINMENT OF INFLATION AND AT
LEAST A ROUGH BALANCE IN BRAZIL'S EXTERNAL TRADE ACCOUNT,
INCLUDING, IF NECESSARY, AT THE EXPENSE OF OVERALL ECONOMIC
GROWTH. VELLOSO ALSO RE-AFFIRMED THE GOB COMMITMENT TO
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CURRENT INFLATION AND EXTERNAL BALANCE POLICIES, BUT
STATED THAT HE BELIEVES THE NEGATIVE EFFECTS OF THE DROUGHT
ON AGRICULTURAL OUTPUT WILL BE COMPNSATED BY AN
INCREASE IN THE RATE OF INDUSTRIAL EXPANSION AND THAT THE DROUGHT WIL
L
NOT PRECLUDE ATTAINMENT OF BRAZIL'S BASIC ECONOMIC
GOALS IN 1978. THE CDE MEETING FOCUSED ON THE

IMPLICATIONS OF THE DROUGHT AND ADOPTED MEASURES
AIMED AT ALLEVIATING RELATED EMPLOYMENT AND STATE
FINANCE PROBLEMS. END SUMMARY.

2. IN COMMENTS TO THE PRESS ON MAY 15, PLANNING
MINISTER REIS VELLOSO SAID THAT AGRICULTURAL OUTPUT
WILL PROBABLY REGISTER NEGATIVE GROWTH IN 1978 DUE
TO DROUGHT CONDITIONS BUT THAT THE GOB QUOTE CONTINUES
WITH THE IDEA OF EXECUTING THREE BASIC OBJECTIVES,
DIFFICULT BUT POSSIBLE END QUOTE: BALANCE IN BRAZIL'S
EXTERNAL TRADE ACCOUNT; INFLATION RATE NO HIGHER
THAN 35 PERCENT; AND GDP GROWTH APPROXIMATELY
EQUIVALENT TO THAT OF LAST YEAR (4.7 PERCENT).
EXPANDING ON THESE REMARKS, VELLOSO COMMENTED ON HIS
EXPECTATIONS IN EACH OF THE THREE AREAS.
TRADE BALANCE: VELLOSO REPEATED THAT WELL-KNOWN GOB
VIEW THAT THE ESTIMATED SHORTFALL OF 1.5 BILLION
DOLLARS IN PRIMARY PRODUCT EXPORTS WILL BE COMPNSATED
IN LARGE PART BY AN ESTIMATED 25 PERCENT INCREASE IN
MANUFACTURED EXPORTS (THE FIRST QUARTER 78 EXPANSION
WAS NEARLY 40 PERCENT). MORE IMPORTANTLY VELLOSO
INDICATED PUBLICALLY FOR THE FIRST TIME THAT IN
FURTHER PURSUIT OF AN OVERALL TRADE BALANCE THE GOB
HAS DECIDED TO STRETCH-OUT OVERSEAS PROCUREMENT BY
STATE ENTERPRISES FOR NON-PRIORITY PROJECTS. VELLOSO
ESTIMATED THE FOREIGN EXCHANGE SAVINGS IN 1978 FROM
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THIS MOVE WILL BE ABOUT \$400 MILLION.
INFLATION: VELLOSO STATED THAT HE BELIEVES THAT
FUTURE AGRICULTURAL PRICES INCREASES WILL BE DAMPENED
THROUGH IMPORTS OF CORN (120 MILLION DOLLARS) AND
MEAT AND BY RELEASE OF BEAN AND RICE STOCKPILES.
ON THIS BASIS, HE BELIEVES OVERALL INFLATION IN
1978 WILL NOT EXCEED 35 PERCENT.
ECONOMIC GROWTH: VELLOSO SAID HE EXPECTS NEGATIVE
GROWTH IN 1978 IN THE AGRICULTURAL SECTOR (AFTER
A 10 PERCENT INCREASE IN 1977) WILL BE COMPNSATED
BY AN INCREASE IN INDUSTRIAL GROWTH RATES BY 2 TO 3
PERCENTAGE POINTS TO 6-7 PERCENT. (ACCORDING TO
PLANNING MINISTRY INDICATORS, THE ANNUALIZED RATE OF
INDUSTRIAL GROWTH IN THE 1ST QUARTER WAS APPROXIMATELY
5.8 PERCENT, UP FROM AN OVERALL 1977 RATE OF APPROXIMATELY
4 PERCENT).

3. ADDRESSING A GROUP OF BANKERS IN SALVADOR ON
MAY 12, FINANCE MINISTER SIMONSEN PLACED THE MAIN
EMPHASIS ON CONTINUATION OF GOB EFFORTS TO REDUCE
THE RATE OF INFLATION AND MAINTAIN A BALANCE IN
BRAZIL'S TRADE ACCOUNT. SIMONSEN COMMENTED THAT THE

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UNCLAS SECTION 2 OF 2 BRASILIA 4049

GENEVA FOR USMTN

TWO PRIMARY GOB OBJECTIVES, A LOWER INFLATION RATE
AND AN EXTERNAL TRADE BALANCE, WILL CONTINUE TO BE
PURSUED EVEN IF THIS REQUIRES A SOMEWHAT LOWER RATE OF
OVERALL ECONOMIC GROWTH. THE MINSTER AND OTHER
SPOKESMEN FOR THE MINISTRY OF FINANCE ALSO HAVE
INDICATED THEIR EXPECTATION THAT INDUSTRIAL GROWTH
WILL REVIVE IN 1978 AND HELP TO COMPENSATE FOR THE
DOWNTURN IN AGRICULTURAL PRODUCTION. HOWEVER, IN '
RESPONSE TO QUESTIONS ON MAY 12, SIMONSEN REJECTED
SUGGESTIONS THAT THE DECLINE IN AGRICULTUTAL
PRODUCTION SHOULD BE FULLY COMPENSATED BY MORE RAPID
INDUSTRIAL EXPANSION. HE OBSERVED THAT FURTHER
STIMULUS TO INDUSTRIAL ACTIVITY, WHICH ALREADY HAS
PICKED UP COMPARED TO 1977, COULD INCREASE PRESSURES
ON MONEH IPPLY GROWTH, WHICH THE GOB COULD NOT
ACCEPT BECAUSE OF ITS ADVSERSE IMPLICATIONS FOR INFLATION.
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4. POLITICAL ECOMMENTARY IN THE MAY 15TH JORNAL DO BRASIL ATTRIBUTED CURRENT EMPHASIS ON THE COMMERCIAL BALANCE AND THE EXTERNAL DEBT TO PRESIDENT GEISEL'S DESIRE TO TRANSFER THE ECONOMY TO THE NEW ADMINISTRATION IN SOUND FINANCIAL CONDITION. IT NOTED THAT SIGNIFICANT IMPROVEMENT THIS YEAR IN THESE AREAS WOULD ALLOW THE FIGUEIREDO ADMINISTRATION MORE FLEXIBILITY IN ACCELERATING ECONOMIC GROWTH DURING THE FIRST YEAR AFTER THE TRANSFER OF POWER. THE COMMENTATOR ALSO MENTIONED THAT SIGNIFICANT ECONOMIC IMPROVEMENT IS AN IMPORTANT CONDITION FOR THE IMPLEMENTATION OF ANNOUNCED POLITICAL REFORMS.

5. THE MEETING OF THE ECONOMIC DEVELOPMENT COUNCIL ON MAY 17 CONSIDERED A DROUGHT REPORT BY MINISTER OF INTERIOR RANGEL REIS AND MINISTER OF AGRICULTURE PAULINELLI. ACCORDING TO PRESS REPORTS, THE CDE FOCUSED MAINLY ON THE IMPLICATIONS OF THE DROUGHT FOR EMPLOYMENT, STATE FINANCES, AND INDUSTRIAL ACTIVITY IN THE SOUTHERN STATES. IT WAS NOTED THAT WORKERS LEAVING AGRICULTURAL AREAS ARE SWELLING THE RANKS OF UNEMPLOYED, THAT REDUCED AGRICULTURAL OUTPUT HAS GREATLY REDUCED STATE REVENUES, AND THAT VERY LOW RESERVOIR LEVELS THREATENS TO REQUIRED RATIONING OF WATER AND ENERGY CONSUMPTION. IN FURTHER GOB RESPONSE TO THE SITUATION (SEE REF A FOR REPORT OF CREDIT RELIEF FOR FARMERS), THE CDE ANNOUNCED: AN INCREASE IN THE MINIMUM PRICE FOR WHEAT (FROM CR\$238.20 TO CR\$249.00 PER SACK); ACCELERATED LIBERATION OF CR\$485 MILLION FROM NATIONAL URBAN DEVELOPMENT FUND TO FINANCE LABOR-INTENSIVE PUBLIC WORKS IN RIO GRANDE DO SUL, PARANA, AND SANTA CATARINA; AND, UNCLASSIFIED

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AUTHORIZATION FOR THE STATE OF PARANA TO BORROW US\$50 MILLION FROM FOREIGN BANKS TO COVER PART OF AN ESTIMATED CASH DEFICIT OF CR\$2 BILLION (US\$118 MILLION) IN THE 1978 STATE BUDGET. IN ACKNOWLEDGING THE IMPORTANCE OF THESE STEPS, THE GOVERNOR OF PARANA NONETHELESS REPORTEDLY EMPHASIZED THAT: 1) THE FULL EXTENT OF THE IMPACT OF THE DROUGHT ON THE ECONOMY OF THE SOUTHERN STATES IS STILL NOT CLEAR; AND 2) WHILE THE RAIN THAT OCCURRED EARLY IN THE LAST WEEK REDUCED THE IMMEDIATE THREAT OF WATER RATIONING IT DEFINITELY HAS NOT ELIMINATED THE NEEDS FOR EMERGENCY ASSISTANCE. JOHNSON

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